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No. 07-241

IN THE

Supreme Court of the United States

HOMAN MCFARLING,

Petitioner,

v.

MONSANTO COMPANY,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE RESPONDENT IN OPPOSITION

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QUESTIONS PRESENTED

1. Whether the court of appeals correctly concluded that the fee paid to the owner of patented biotechnology embodied in genetically modified seeds, in exchange for a limited license that authorizes the purchasing grower to use the purchased seed to plant a commercial crop in one growing season, was not an "established royalty" for petitioner's infringing acts, which indisputably violated the terms of the limited license by using the second-generation seeds containing the identical patented biotechnology to plant additional unauthorized crops in subsequent growing seasons.

2. Whether the court of appeals otherwise properly upheld the jury's damages award in this case as supported by the evidence and not grossly excessive.

3. Whether the doctrines of patent exhaustion and patent misuse can properly be used to prohibit the owner of patented, self-replicating biotechnology embodied in genetically modified seeds that are sold to growers from licensing such growers only to sell the resulting crop as a commodity, such that any second-generation seeds containing the patented technology (which have themselves never been sold) cannot be used or sold to others for use as seed.

PARTIES TO THE PROCEEDING

The only parties to the proceeding are those identified in the caption.

RULE 29.6 STATEMENT

Monsanto has no parent corporation, and no publicly held corporation owns more than 10% of its stock.

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OPINIONS BELOW

The decision of the court of appeals (Pet. App. 1a-17a) is reported at 488 F.3d 973. The decision of the district court (Pet. App. 18a-32a) is unreported. Prior decisions of the court of appeals are reported at 363 F.3d 1336 and 302 F.3d 1291.

JURISDICTION

The judgment of the court of appeals was entered on May 24, 2007. Pet App. 1a. The petition for a writ of certiorari was filed on August 22, 2007. This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

STATEMENT OF THE CASE

1. This patent infringement dispute arises out of respondent Monsanto's efforts to protect its patented biotech-

nology used in soybean plants and plant seeds that have been genetically modified to be resistant to glyphosate-based herbicides. After a considerable investment of resources, Monsanto developed recombinant DNA technology that, when inserted into certain commercial crops (including soybeans), protects the resulting genetically modified plants from being harmed by applications of glyphosate-based herbicides. This biotechnology permits growers to spray glyphosate-based herbicides over an entire field to control weeds without harm to their crops, thus allowing for much more efficient and safer weed control than is possible with unmodified plants. *See* Pet. App. 2a. Monsanto sells the Roundup® family of glyphosate-based herbicides and markets seeds of the crops genetically modified with its patented biotechnology under the trade name Roundup Ready®. *Id.* at 106a.

In this case, Monsanto asserted two patents: U.S. Patent Nos. 5,352,605 ("the '605 patent") and 5,633,435 ("the '435 patent"). The '435 patent claims a DNA molecule that encodes a genetically modified, glyphosate-tolerant enzyme and, *inter alia*, a plant cell and a plant seed containing that DNA molecule.[1] The '605 patent claims a separate and unique promoter gene that facilitates a plant's production of the modified enzyme (and a plant cell containing that gene). *See* Pet. App. 3a. It is undisputed that Roundup Ready® soybean seed contains the two types of DNA molecules (or genes) as claimed in each patent. *See id.*

To market its patented biotechnology, Monsanto licenses seed companies to produce seeds containing the herbicide-resistant trait by inserting the patented technology into soybean DNA and then to sell the resulting Roundup Ready® seeds to growers subject to separate license restrictions. Under the terms of their licenses with Monsanto,

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[1] The '435 patent was reissued on August 22, 2006 (U.S. Patent RE 39,247). As described below, Monsanto dismissed its infringement claim under the '435 patent after McFarling's second appeal to the Federal Circuit.

the seed companies that produce Roundup Ready® seed are required to have the growers who purchase Roundup Ready® seeds execute separate licenses with Monsanto. Pet. App. 3a. Hence, Monsanto's licensing program involves two different types of licenses: a license authorizing the manufacturing seed companies to make and sell Roundup Ready® seed under specified conditions, and a license allowing purchasing growers to use the purchased seed to plant a commercial crop and to sell the soybeans resulting from that crop as a commodity.

This grower's license is known as a "Technology Agreement." Under the terms of this license, growers agree to use the patented, genetically modified seeds only for planting a single commercial crop, and further agree not to plant second-generation seeds that were produced from the purchased seed or to sell or supply those seeds to others for planting. Growers who decide to continue planting Roundup Ready® soybean seeds must therefore purchase new seeds from licensed Monsanto seed distributors each growing season. Under the Technology Agreement, the grower also agrees to pay Monsanto a technology fee, which during the time periods relevant here was $6.50 for each 50-pound bag of soybean seeds sold by its licensees. In addition to collecting this technology fee, seed producers or retailers charged growers between $19 and $22 for each bag of seed. Pet. App. 3a-4a.

The restrictions on planting saved, second-generation seed are necessary in light of the self-replicating characteristics of the technology and are designed to allow widespread use of the patented technology while protecting Monsanto's patent rights and investment in developing its unique biotechnology. Every Roundup Ready® soybean contains the genetic modifications covered by Monsanto's patents, and soybean plants grown from Roundup Ready® seed in turn produce new Roundup Ready® soybeans containing these same genetic modifications. Pet. App. 6a-7a. Moreover, soybeans replicate at an exponential rate, as a single Roundup Ready® soybean seed typically produces a

plant that yields 25 to 50 genetically identical soybeans that can either be sold as a commodity or used as seeds. *See id.* at 126a. As a result, growers are left at the end of a growing season with an abundance of soybeans to be sold as a commodity, while still being able to save enough seed to plant in the following year, or to sell to someone else for use as seed. Thus, absent the license restrictions prohibiting growers from saving soybeans containing this patented technology to plant as seed in a subsequent season or to sell as seed, the patent owner's ability to recoup its costs of developing that technology and to protect or exploit its patent rights would be lost as soon as the first generation of each commercial Roundup Ready® product was introduced into the market.

2. In 1998, petitioner McFarling purchased Roundup Ready® soybean seed, paid the required technology fee, and signed a Technology Agreement promising not to plant in subsequent seasons the genetically identical progeny produced by the purchased seeds; *i.e.*, he promised not to save and use as seed (or to sell to others to use as seed) the genetically identical, second-generation seeds. Pet. App. 4a. Contrary to that Agreement, however, McFarling saved seeds from his 1998 crop, and used those saved seeds to plant his fields during the 1999 growing season. He repeated that unauthorized activity in the following growing season. *Id.* at 3a-4a.

3a. After learning that McFarling had saved and planted second-generation seeds, Monsanto brought suit against him, alleging infringement of both the '435 and '605 patents and breach of the Technology Agreement. Monsanto also sought a preliminary injunction against further infringement. McFarling raised various defenses and counterclaims, including patent misuse, the patent-exhaustion (or first-sale) doctrine, and antitrust violations. The district court entered a preliminary injunction prohibiting McFarling from obtaining or planting Roundup Ready® soybean seed. Pet. App. 4a.

b. On McFarling's first appeal, the court of appeals affirmed the entry of the preliminary injunction. Pet. App.

57a-88a (*"McFarling I"*). In so ruling, the court of appeals concluded that McFarling was not likely to succeed on the merits of his counterclaims and defenses. Regarding McFarling's defense of patent exhaustion in particular, the court of appeals explained that that doctrine was not implicated because "the new seeds grown from the original batch had never been sold." *Id.* at 70a. Since the new seeds "were not sold by the patentee they entailed no principle of patent exhaustion." *Id.* at 71a. This Court denied McFarling's petition for certiorari, which raised issues unrelated to those raised in the present petition. 537 U.S. 1232 (2003).

4a. The district court then granted summary judgment as to liability to Monsanto on its claims for breach of contract and infringement of the '605 patent.[2] The district court also granted summary judgment to Monsanto on all of McFarling's counterclaims and defenses, including patent misuse; McFarling abandoned patent exhaustion as a defense after the court of appeals' affirmance of the preliminary injunction. Pet. App. 90a-93a. With liability resolved, the parties stipulated to an amount of liquidated damages for breach of the license agreement. The district court entered final judgment under Rule 54(b) of the Federal Rules of Civil Procedure on Monsanto's breach of contract claim and all of McFarling's counterclaims and defenses (but not on the claim of infringement of the '605 patent because the amount of damages for the infringement claim had not been resolved by trial or stipulation). *Id.* at 5a.

b. On McFarling's second appeal, the court of appeals affirmed the grant of summary judgment to Monsanto on all of McFarling's defenses and counterclaims, but vacated the liquidated damages award under Missouri contract law. Pet. App. 105a-137a (*"McFarling II"*). With respect to McFarling's patent-misuse defense, the court of appeals concluded that the prohibition on planting saved, second-generation

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[2] Monsanto did not seek summary judgment on its claim of infringement of the '435 patent. Pet. App. 4a.

seed did not broaden the scope of the patent because Monsanto does "not impose a restriction on the use of the product purchased under license but rather imposes a restriction on the use of the goods made by the licensed product." *Id.* at 116a. Although the court of appeals noted that its case law had not previously addressed the patent-misuse doctrine in the context of the "unique set of facts" presented by self-replicating technology, the court reasoned that, because the second-generation seeds are identical copies of the patented article, restrictions on their use or sale do not improperly extend Monsanto's rights under the patent. *Id.*

c. McFarling then sought this Court's review of the question whether Monsanto could, under the patent laws, "lawfully prohibit farmers from saving and replanting seed" containing its patented biotechnology. Cert. Pet., *McFarling II*, 2004 WL 1535852. While that petition for certiorari was pending, Monsanto, back in the district court, dismissed its contract claim and its infringement claim under the '435 patent, electing to pursue its damages claim only under the '605 patent. McFarling argued in this Court that Monsanto's dismissal of its breach of contract claim and its infringement claim under the '435 patent undermined the basis for the court of appeals' decision in *McFarling II*. McFarling further argued that, without a contractual provision prohibiting farmers from planting saved, second-generation seeds, Monsanto could not enforce such a restriction under the patent laws. Cert. Pet. Supp. Br., *McFarling II*, 2005 WL 1248454. This Court denied certiorari, 545 U.S. 1139 (2005).

5a. The parties then proceeded to a damages trial on the '605 patent (on which Monsanto had already secured summary judgment as to liability). Pet. App. 5a. The district court denied McFarling's pre-trial motion to exclude the testimony of Monsanto's damages expert under *Daubert* v. *Merrell Dow Pharmaceuticals, Inc.*, 509 U.S. 579, 589 (1993). At trial, Monsanto's damages expert explained the benefits to McFarling of using Roundup Ready® soybean seeds as well as the benefits of the licensing program, and offered the opinion that a reasonable royalty for McFarling's

unauthorized use of the invention of the '605 patent would be $80.65 per bag of saved seed in 1999 and $73.20 per bag of saved seed in 2000. Pet. App. 13a-14a. The jury returned a damages verdict reflecting a royalty of $40 per bag of saved seed in both 1999 and 2000.

After trial, McFarling renewed his motion for judgment as a matter of law, arguing that Monsanto was entitled to no damages because Monsanto's decision not to pursue its infringement claim under the '435 patent undercut the basis for the Federal Circuit's previous rejection of McFarling's counterclaims and defenses. Pet. App. 5a. Alternatively, he argued that the infringement damages should be limited to the $6.50 per-bag technology fee. *Id.* at 6a. The district court denied the motions, upheld the jury's damages award, and permanently enjoined McFarling from future unauthorized use or sale of the technology covered by the '605 patent. *Id.*

b. On McFarling's third appeal, the court of appeals affirmed the jury's damages verdict and denied McFarling's invitation to reconsider his previously rejected defenses and counterclaims. Pet. App. 1a-17a ("*McFarling III*"). The court of appeals rejected McFarling's argument that Monsanto's dismissal of its breach of contract claim and of the '435 patent infringement claim undermined the decision in *McFarling II*. The court of appeals explained that its reasoning in *McFarling II* applied equally to the '605 patent as to the '435 patent because every Roundup Ready® soybean contains DNA molecules claimed by both patents. Moreover, the court of appeals reiterated that Monsanto's restrictions on planting saved seed did not constitute patent misuse because, given the self-replicating nature of the technology, "the prohibition against use of second-generation seeds was simply a prohibition against unlicensed use of the patented invention." *Id.* at 6a-7a.[3]

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[3] The court of appeals also adhered to its previous rejection of McFarling's antitrust claim, noting that it was just a repackaged version of the rejected patent-misuse claim. *Id.* at 8a.

As to the damages award, the court of appeals rejected McFarling's argument that any damages award should be capped at $6.50 per 50-pound bag of Roundup Ready® soybean seed, the amount of the technology fee charged by Monsanto for authorized use of the patented technology. The court explained that $6.50 could not be an "established royalty" for McFarling's conduct because that fee was a royalty only for the use of the technology for a single commercial crop in a single growing season, whereas Monsanto had consistently *refused* to license growers to engage in the infringing conduct that McFarling committed—saving and using as seed the genetically identical progeny of the purchased seeds in subsequent growing seasons. Pet. App. 12a.

As to whether the jury's damage award reflected a "reasonable royalty," the court noted that it customarily gave broad deference to the jury's conclusions when reviewing such damage awards. Pet. App. 14a. In this case, trial testimony showed that the use of Roundup Ready® soybean seeds increased the farmer's yield and resulted in significant cost savings for weed control. Even using the lowest estimates for such benefits, the evidence showed that a grower would save between $31 and $61 per acre (*i.e.*, per each bag of seed, under an approximate planting rate of one bag per acre) using seeds containing Monsanto's patented technology as opposed to conventional seeds. It was therefore reasonable, the court of appeals explained, for the jury to conclude that a purchaser would pay $40 per bag of seed for the patented technology when applying the "hypothetical negotiation" methodology for establishing a reasonable royalty under 35 U.S.C. § 284. *Id.* at 14a-15a; *see, e.g., Georgia-Pacific Corp.* v. *United States Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970), *aff'd*, 446 F.2d 295 (2d Cir. 1971) (setting forth factors for hypothetical royalty negotiations).[4] Finally,

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[4] Petitioner does not challenge nor ask this Court to review the Federal Circuit's well-established "hypothetical negotiation" methodology for calculating a reasonable royalty. Petitioner argues only that the reasonable royalty calculation was not necessary here.

the court of appeals rejected McFarling's *Daubert* challenge to Monsanto's damages expert, and affirmed the district court's grant of injunctive relief. *Id.* at 15a-16a.

ARGUMENT

Petitioner takes issue with two aspects of the decision below, neither of which warrants review. First, he objects to the jury's damages award and the court of appeals' refusal to overturn it. That issue does not merit this Court's review. The court of appeals applied settled law to uphold the jury's broad discretion in arriving at a reasonable royalty for McFarling's infringement of Monsanto's patent. Second, petitioner once again objects to the court of appeals' refusal to allow him to make whatever use he chooses of second-generation soybean seeds that are genetically identical to the genetically modified first-generation seeds that he purchased—even though, when he obtained a license to use Monsanto's patented technology, he expressly agreed not to use the second-generation seed for planting. Petitioner sought certiorari on essentially the same question in *McFarling II*, and this Court denied review. In any event, the court of appeals correctly concluded that Monsanto did not misuse its patent by refusing to allow petitioner to make whatever use he desired of the genetically identical progeny of the purchased seed, and it also correctly held, in *McFarling I*, that the patent-exhaustion or first-sale doctrine has no application in the context of genetically identical second-generation seeds that McFarling never purchased. This Court should therefore deny certiorari.

I. THE COURT OF APPEALS CORRECTLY APPLIED SETTLED PATENT DAMAGES PRINCIPLES TO CONCLUDE THAT THE JURY'S DAMAGES VERDICT WAS SUPPORTED BY THE EVIDENCE AND WITHIN THE FACT-FINDER'S REASONABLE DISCRETION

Petitioner identifies two supposed errors in the court of appeals' decision on damages: (1) that the court of appeals' decision contravenes the rule that an established royalty precludes any need to calculate a reasonable royalty under 35 U.S.C. § 284 using the well-established "hypothetical negotiation" methodology; and (2) that the court of appeals'

"alternative" basis for affirming the district court's decision was flawed. Pet. 9-11. Petitioner mischaracterizes the appeals court's decision on both counts—at bottom, petitioner simply objects to the result that the jury reached and that the district court and court of appeals upheld by applying settled law to the facts of this case.

A. The Court Of Appeals Correctly Ruled That There Was No Established Royalty In This Case

The core of petitioner's challenge to the damages award in this case is that the $6.50-per-bag technology fee payable to Monsanto when a grower purchases a bag of Roundup Ready® soybean seeds is an "established royalty" that delimits the amount that petitioner should have been required to pay in infringement damages. The court of appeals correctly concluded, however, that there was no established royalty for the infringing use that petitioner made of the patented technology.

The court of appeals fully recognized that, when available, an established royalty for the use that the infringer made of the patent is the best measure of patent damages. *See* Pet. App. 9a-10a. That approach to patent damages presupposes, however, that there is an established royalty for the particular use of the patented invention that was made by the infringer. A license for one use of a patented invention is not necessarily the "established" royalty for a license of different scope. In this case, the court of appeals correctly determined there was no established royalty for the use that petitioner made of Monsanto's patented invention—planting saved, second-generation seeds—because Monsanto had never licensed that right to any grower. *Id.* at 12a-13a. That analysis is entirely consistent with the cases cited by petitioner. *See Hanson* v. *Alpine Valley Ski Area, Inc.*, 718 F.2d 1075 (Fed. Cir. 1983) (holding prior license did not constitute established royalty where it encompassed payments in addition to royalty); *Nickson Indus., Inc.* v. *Rol Mfg. Co.*, 847 F.2d 795 (Fed. Cir. 1988) (affirming rate for prior licenses to engage in identical activity to that in which infringer engaged constituted established royalty rate).

In *Monsanto Co.* v. *Ralph*, 382 F.3d 1374 (Fed. Cir. 2004), where the court of appeals considered and rejected the very same claim raised by petitioner here, the court explained that a technology fee for a single, limited use of Monsanto's patented invention is not an "established royalty" for the grower's appropriation to himself of far greater rights to use that invention:

> Monsanto has chosen, as is its prerogative, to permit farmers to plant a commercial crop of the patented seeds in a single season in exchange for payment of the Technology Fee and a promise, manifested through the Technology Agreement, not to save those seeds that are harvested at the end of the growing season for replanting, production, sale, or transfer to others. The Technology Fee is a royalty, to be sure, but it is a royalty for only a narrow, contractually agreed-upon, use of the seed. It is undisputed in the record that Monsanto has not granted licenses to anyone to plant, produce, or transfer saved seed. The Technology Fee is therefore not an established royalty for planting or transferring saved seed, the uses that Ralph made of the patented invention.

Id. at 1383-1384. In the decision below, the court of appeals reached the same conclusion:

> Because [petitioner's argument that damages should be limited to $6.50 per bag] does not take into account the added obligation imposed on all authorized licensees under the Technology Agreement—to purchase seed from an authorized seed store—the trial court was correct to refuse to treat the $6.50 Technology Fee as the established royalty for a license comparable to the infringing conduct.

Pet. App. 11a (*citing Ralph*, 382 F.3d at 1383-1384).

Nothing in the court of appeals' decision is inconsistent with any of the cases petitioner cites in his brief. For example, petitioner suggests that the decision below is inconsistent with the standard for an established royalty articulated

in *Rude* v. *Westcott*, 130 U.S. 152 (1889). The court of appeals correctly rejected this argument. *Rude* states that, "where there has been such a number of sales by a patentee *of licenses to make, use, and sell* his patents as to establish a regular price for a license, that price may be taken as a measure of damages against infringers." *Id.* at 185 (emphasis added). The court of appeals correctly concluded, however, that Monsanto had never granted growers a license to use second-generation Roundup Ready® seed to plant in the following growing season, and that the narrower licenses Monsanto granted to growers who lawfully purchased licensed seed and signed the Technology Agreement were not of the same scope as the rights petitioner appropriated to himself in infringing Monsanto's patent. Pet. App. 12a.

Petitioner argues that the court of appeals should have capped damages at the level of the $6.50 per-bag technology fee "because [petitioner] knew that he could walk into any authorized seed store and walk out with a bag of Roundup Ready® seed for as little as $25.50, of which $6.50 would go to Monsanto. There is no reason to 'hypothesize' that he would have paid Monsanto a dime more." Pet. 14. Petitioner's argument misapprehends how a reasonable royalty analysis works. Had petitioner been content to use Monsanto's patented technology according to the terms set forth in the Technology Agreement, he could have done so for as little as $25.50 per bag of Roundup Ready® seed, of which $6.50 would have represented a royalty for the authorized use of Monsanto's technology. Petitioner was *not* satisfied, however, with accepting the license granted by Monsanto and instead appropriated to himself a different and broader right—the right to save and plant second-generation seeds without agreeing to the terms of the Technology Agreement, including the limitations that it places on permissible use of Monsanto's patented invention. Having done so, he cannot claim the benefit of an established royalty for use of an invention far narrower than the scope of his infringement.

Given that there was no established royalty for McFarling's infringing use of Monsanto's patented invention, the

proper approach—and that approved by both courts below—was to arrive at a hypothetical reasonable royalty that would best approximate the amount that willing parties would arrive at in a negotiation for the use that the infringer actually made of the invention. *See Hanson*, 718 F.2d at 1081. There are numerous factors that may be taken into consideration in this fact-specific determination, but one of the most important is the quantification of the benefits of the patented technology over other available options. *See Suffolk Co.* v. *Hayden*, 70 U.S. 315, 320 (1865); *see also Hanson*, 718 F.2d at 1080-1081. This is precisely the analysis presented to the jury and undertaken by the district court and the court of appeals below. Based on the testimony of Monsanto's experts regarding the advantages and cost savings of using Roundup Ready® technology over conventional soybean seed and weed control alternatives, the court of appeals concluded that the jury's royalty of $40 per bag of seed saved from the prior year's crop was supported by the evidence and not grossly excessive. Pet. App. 13a-15a. The court of appeals' conclusion affirming this particular jury damages award raises no issue worthy of this Court's review.

B. The Court Of Appeals Did Not Rely On Any So-Called "Alternative Analysis" As The Basis For Affirmance

Petitioner also argues that the court of appeals incorrectly employed an "alternative analysis" that effectively upheld a damages award designed to compensate seed producers, and not just Monsanto, for petitioner's use of Monsanto's patented invention. Contrary to petitioner's suggestion, the court of appeals did not rely on any so-called "alternative analysis" as the basis for its refusal to overturn the jury's damages verdict. The court of appeals did comment that, even for the narrow license granted to growers under the Technology Agreement, $6.50 was not the entire royalty paid in the marketplace for limited use of Monsanto's patent. *See* Pet. App. 11a. The court of appeals made clear, however, that, whatever the proper calculation of the royalty paid by farmers who *abided* by the Technology Agreement,

that royalty was not the correct royalty for the infringing use that *petitioner* made of Monsanto's technology, because there was no established royalty for that use. *See id.* at 11a-12a. Thus, the court of appeals' discussion of the proper way to view the amount of the royalty paid by farmers who purchase seed from authorized Monsanto seed sellers and abide by the license terms provides no basis for review of the decision below.

Moreover, even if the supposed "alternative analysis" could properly be reviewed by this Court, there was no error in the court of appeals' discussion of settled patent-damages law in this regard. In the absence of an established royalty, the calculation of a reasonable royalty requires the fact-finder to determine "a hypothetical royalty resulting from arm's length negotiations between a willing licensor and a willing licensee." *Trell* v. *Marlee Elecs. Corp.*, 912 F.2d 1443, 1445 (Fed. Cir. 1990). In the real world, growers purchase Roundup Ready® seed from a licensed seed company, but in a hypothetical negotiation, the negotiation would take place directly between Monsanto and the grower seeking a license, without the seed company being present. Thus, the relevant issue is determining the amount that Monsanto would accept from a grower who wanted to engage in petitioner's infringing activity—planting seed he saved from the prior year's crop without any agreement not to continue to save and plant future generations of that seed—and the amount that the infringer would be willing to pay to obtain rights of that magnitude under the patent. As patent owner, Monsanto's damages are properly the entire amount of what the infringer would be willing to pay and what Monsanto would be willing to accept because that is the amount of money that Monsanto would have obtained in the hypothetical world where Monsanto was willing to license growers to save and plant second-generation, patented seed. *See, e.g.*, *Interactive Pictures Corp.* v. *Infinite Pictures, Inc.*, 274 F.3d 1371, 1384 (Fed. Cir. 2001) ("We have also endorsed the conceptual framework of a hypothetical negotiation between the patentee and the infringer as a means for determining a reasonable royalty." (citing *Rite*

Hite Corp. v. *Kelley Co.*, 56 F.3d 1538, 1554 (Fed. Cir. 1995) (en banc))).

Petitioner also argues that the court of appeals improperly relied on a deterrence rationale for its ruling. There is no substance to this argument. The court of appeals did comment that, were petitioner's damages theory adopted, it would illogically result in a situation in which infringement permitted the infringer to pay far less than the market royalty for a more limited use of the patented technology. *See* Pet. App. 11a-12a. This statement was not an expression of a "deterrence rationale," but rather a straightforward observation that, where the marketplace supports a price of more than $25 per bag of seed even for the narrow license (to grow a single commercial crop) granted under the Technology Agreement, it would be nonsensical to conclude that the amount Monsanto would rationally accept for the *broader* license to save and plant second-generation seeds would have been only $6.50.

Finally, petitioner's argument that "*McFarling III* therefore takes the law of patent damages back to 1946" (Pet. 22) is without merit. Before 1946, the patent damages statute allowed to a patent holder a double recovery of both its own damages and the infringer's profits. *See* R.S. 4921 (1945). In 1946, Congress enacted a statute nearly identical to the current version of 35 U.S.C. § 284, which limits recovery to the patentee's "damages," which are defined in the statute as "in any event not less than a reasonable royalty." Here, the court of appeals determined that there was no established royalty for a license to engage in the infringing conduct, and that a reasonable royalty for such a license could be $40 per bag of seed saved for planting in the next growing season. Pet. App. 11a, 15a. The court of appeals noted that the marketplace supported a royalty greater than $6.50 for even a more limited right to plant seeds purchased from authorized dealers in a single season (*see id.* at 11a-12a), but this does not suggest that the court intended to allow a recovery of the infringer's profits. Indeed, in this case there was no argument to the jury about how much money

petitioner actually made from saving and planting Monsanto's patented seed in 1998 and 1999. In short, the court of appeals' damages analysis involved the straightforward application of settled damages principles and does not merit this Court's review.

II. THE COURT OF APPEALS CORRECTLY CONCLUDED THAT THE RESTRICTION AGAINST PLANTING SECOND-GENERATION ROUNDUP READY® SEED DID NOT IMPROPERLY EXTEND MONSANTO'S PATENT RIGHTS

Petitioner contends that the court of appeals' decision improperly allows Monsanto to extend its patent rights in violation of the patent-exhaustion (or first-sale) doctrine. The question raised by petitioner in this regard does not warrant this Court's review for several reasons. First, the issue is not properly before this Court because petitioner failed to preserve it below. Second, this Court previously denied review (in *McFarling II*) on essentially the same issue, and the issue is no more worthy of review now. In any event, the court of appeals' decision below was clearly correct, given the context of self-replicating technology at issue in this case.

A. The Patent-Exhaustion Issue Is Not Properly Before This Court, But Even If It Were This Court Has Already Denied Review On Essentially The Same Issue

This Court should not grant review of petitioner's patent-exhaustion argument because petitioner failed properly to preserve that issue below. *See FW/PBS, Inc.* v. *City of Dallas*, 493 U.S. 215, 224 (1990) ("It is this Court's practice to decline to review those issues neither pressed nor passed upon below."). After the court of appeals concluded at the preliminary injunction stage (*McFarling I*) that petitioner was unlikely to prevail on the merits of his patent-exhaustion defense, petitioner abandoned that defense. First, although petitioner filed a petition for certiorari in *McFarling I*, he did not raise the patent-exhaustion issue in that petition. Second, petitioner did not raise the issue of patent exhaustion on his appeal (in *McFarling II*) from the

district court's grant of summary judgment on liability to Monsanto, even though that would have been an appropriate occasion to raise that issue to the court of appeals (had the issue been properly preserved in the district court, which it was not). Third, petitioner failed to raise the patent-exhaustion issue in his principal brief to the court of appeals in *McFarling III*. Although petitioner belatedly tried to revive his patent-exhaustion claim in his reply brief in *McFarling III*, the court of appeals did not pass on it, evidently deeming the argument waived in light of his failure to preserve it in his opening brief. *See United States* v. *Ford Motor Co.*, 463 F.3d 1267 (Fed. Cir. 2006) (arguments raised for the first time in reply brief are waived).

Even if the issue had been preserved, however, it does not merit this Court's review, and indeed, this Court already denied review on a closely related issue, on the same facts, in *McFarling II*. Following the Federal Circuit's decision in *McFarling II*, petitioner sought this Court's review on the question whether "a patent holder [may] lawfully prohibit farmers from saving and replanting seed as a condition to the purchase of the patented technology." Cert. Pet., *McFarling II*, 2004 WL 1535852. When Monsanto dismissed its breach of contract claim, petitioner filed a supplemental brief in support of his petition for certiorari, arguing that allowing the Federal Circuit's decision to stand in those circumstances would improperly "expand[] Monsanto's patent grant" because it would allow Monsanto to restrict "what purchasers of its seed do with subsequent seed generations." Cert. Pet. Supp. Br., *McFarling II*, 2005 WL 1248454, at *6.

This Court requested the views of the Solicitor General, who recommended denial of certiorari. U.S. Amicus Br., *McFarling II* (No. 04-31). The Solicitor General explained that Monsanto's patent covered both second-generation and first-generation Roundup Ready® seeds, and that Monsanto's refusal to license McFarling to plant second-generation seed was not patent misuse, but rather constituted a legitimate exercise of its right to exclude under the patent laws. *Id.* at 14. This Court then denied certiorari.

Although the question of patent misuse is doctrinally distinct from that of patent exhaustion, on the facts of this case they are closely related. Indeed, in relying on the two doctrines, petitioner has made essentially the same argument: that Monsanto surrenders any legitimate patent rights it has in second-generation soybean seed when the first generation of seed is sold. As the Federal Circuit concluded in *McFarling II*, and as the Solicitor General agreed, that argument is incorrect; the patent reads on the second generation of seed no less than on the first generation of seed, and Monsanto does not improperly seek to extend its patent rights in the second generation merely because the first generation has been sold. Accordingly, although petitioner has now repackaged his arguments as a patent-exhaustion, rather than patent-misuse, claim, the arguments are no more worthy of review now than they were in *McFarling II*.

B. The Patent-Exhaustion Doctrine Has No Application In This Case

In any event, the decision below does not merit review because the patent-exhaustion doctrine has no applicability in the context of this case, which involves self-reproducing technology. As the court of appeals explained in *McFarling I*, the "first sale" of the *first* generation of self-replicating products such as seeds does not exhaust patent rights in the *second* generation of those products. In the circumstances of this case, "[t]he 'first sale' doctrine of exhaustion of the patent right is not implicated, as the new seeds grown from the original batch had never been sold." Pet. App. 70a.

To be sure, in this context, the ordinary use of the article embodying the patented technology (planting the soybean seeds) results in a crop of soybeans, and that second generation of soybeans *can* be used as seeds to plant a third generation of soybeans. But it is simply wrong to say, as petitioner does, that the *only* reasonable use of the patented invention is to plant those second-generation seeds and thus produce a third generation. Pet. 23-25. To the contrary, a reasonable use of the patented invention, particularly for a

commercial soybean grower like petitioner, is to produce a crop of soybeans to be sold as a commodity, which petitioner was free to do under his license from Monsanto—the terms of which he chose to disregard. Moreover, the fact that patented technology can replicate itself does not—and cannot—give the purchaser the right to use replicated copies of the technology in any way the purchaser chooses. As the court of appeals noted in another "saved seed" case against a different defendant, "[a]pplying the first sale doctrine to subsequent generations of self-replicating technology would eviscerate the rights of the patent holder." *Monsanto Co.* v. *Scruggs*, 459 F.3d 1328, 1335-1336 (Fed. Cir. 2006), *cert. denied*, 127 S. Ct. 2062 (2007).

Because the patent-exhaustion doctrine has no application in this context, there is also no reason to hold this case for this Court's disposition of *Quanta Computer, Inc.* v. *LG Electronics, Inc.* (No. 06-937) (certiorari granted Sept. 25, 2007). First, in this case, unlike in *Quanta*, the purchaser is not precluded from making the only reasonable use of the patented article. As noted, farmers purchasing Roundup Ready® soybean seed are licensed to grow a commercial crop of soybeans for sale as a commodity.

Second, *Quanta* does not involve self-replicating technology, and no issue about the application of the exhaustion doctrine to such technology is before the Court in *Quanta*. Indeed, the *Quanta* petitioners themselves have noted that that case does not raise any issues pertinent to self-replicating technologies. *See* Pet. Br. 42-43 n.13, *Quanta* (No. 06-937) (noting that the issue of self-replicating seeds "obviously is not presented" in *Quanta*). The Solicitor General, in an amicus brief in *Quanta*, also explained that *Quanta* does not bear on the issues in this case:

> This Court has never suggested that the patent-exhaustion doctrine applies to the *products* of a patented item that is capable of reproducing itself in the hands of the purchaser—*e.g.*, newly-grown seeds that are identical to, and grown from, a patented genetically-modified seed that was purchased

> from the patentee or an authorized licensee. See U.S. Amicus Br. at 14 & n.8, *McFarling* v. *Monsanto Co.*, 545 U.S. 1139 (2005) (No. 04-31). This case presents no opportunity to address that question.

U.S. Amicus Br. 15 n.6, *Quanta* (No. 06-937). Because the Court's disposition of *Quanta* will not affect the outcome of this case, there is no need for the Court to hold this case for its decision in *Quanta*.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted.

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